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25 July 1952

Status of the Economic Intelligence Program as of 30 June 1952A. Economic Intelligence Research

In addition to the NIS there are other basic economic intelligence research programs underway that are maintained on a more current basis. These programs are carried out by analysts who are also charged with focusing this research on national security problems.

1. Soviet Bloc

While the number of professional personnel working on special segments of the Soviet Bloc economy (e.g. electronics, metals, electric power, etc.) appears to be relatively adequate, the deficiencies in raw data have made it extremely difficult to build up satisfactory basic intelligence on many aspects of the economy. As a general proposition it can be stated that intelligence on industrial production, while far from complete, is reasonably adequate. On the other hand, intelligence is generally inadequate on such important industrial questions as: the consumption pattern of industrial items; input requirements of industry for labor, materials, and equipment; certain details on important individual plants (such as capacity and production); and the quantities and location of stockpiles of strategic items.

Information from the field on foreign trade is usually reported by broad categories of items. This results in a lack of specificity and details on individual items (such as the description, origin, trade channels and destination) are usually not readily available to the researcher. Intelligence on clandestine trade is very spotty. Very few analysts are working on the

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subject of international finance and information on this subject is scarce. There are, for example, no reasonably current studies of: Soviet Bloc assets in the United States; Soviet balance of payments; or Soviet foreign exchange and gold availabilities and dispositions.

In the field of transportation there is a sizeable intelligence research effort, but data are lacking on certain of its important aspects. On the subject of shipping, for example, while data on ship movements are relatively good, information on the cargoes carried is very poor. Intelligence on rail transportation is relatively adequate on such general matters as ton-kilometers of freight carried, location of principal rail lines and production of locomotives and rolling stock; but more complex questions such as the composition of freight traffic within the USSR and the capacity of the Trans-Ciberian railroad must undergo more intensive research. Intelligence on the automotive industry is generally better but is of lesser importance.

Population and manpower intelligence is relatively adequate in the matter of aggregates but information on the composition of these aggregates is much weaker. Important studies relating to the productive efficiency of workers in key munitions industries, for example, have not been undertaken and would be hampered by a shortage of information.

In the subject of agriculture, intelligence is relatively good although some specific aspects -- notably the quantity and location of stockpiles -- are weak.

While intelligence on the structure and organization of the economy and the way it works is reasonably adequate it is notably weak on such important

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aspects as the physical location of the control net.

Until recently the economic intelligence community has been very limited as to the number of broad integrated studies and special analytic reports that it might prepare at any one time. General economists and analysts trained in handling broad problems, as opposed to the specialized analysts such as the commodity experts, have been relatively small in number. However, CIA has been in the process of building up a staff of these analysts and within the next year it is expected that this problem will have diminished.

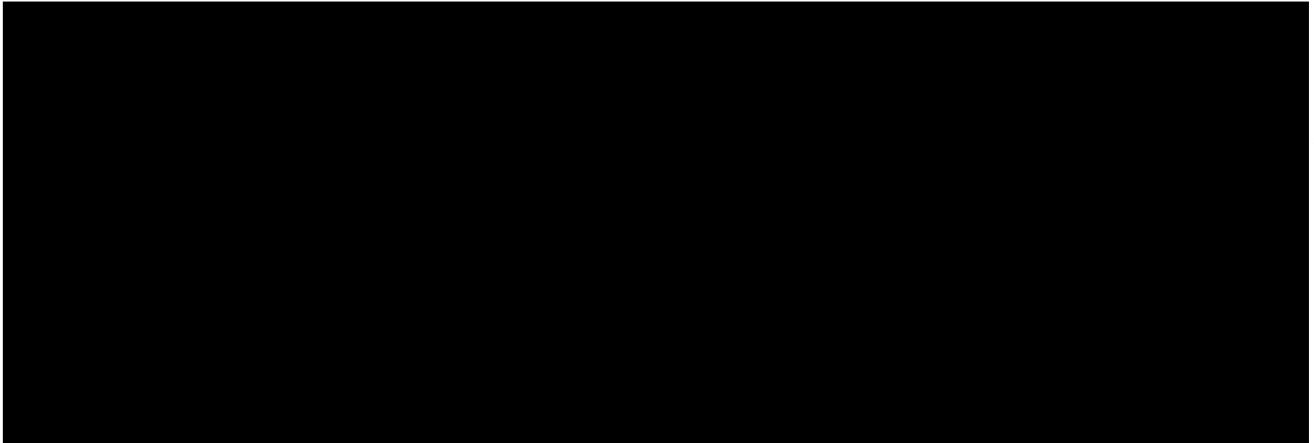
Personnel-wise the economic intelligence community is in a better position to produce studies on specific segments of the economy (e.g. transportation, electric power, petroleum, metals and minerals).

The fullest possible utilization of technical and industrial specialists has not, however, been achieved largely because: (1) current collection policies are used to prevent these experts directly consulting promising sources; and (2) because of the military services' persistent reluctance to allow direct intercourse between their technical services (non-intelligence) personnel and civilian intelligence analysts working in the same field.

In addition to the continuing basic research effort there are certain special projects and programs designed to give major support to this effort.

Among the more important are the following:

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(b) Use of Other Techniques and Methods

Among the innovations which became established methodology in CIA in the fiscal year 1952 are the use of input-output analysis, estimation of future trends by extrapolating index number trends, the use of ruble prices as an aggregation device and measurement of Bloc economic capabilities by estimating and analyzing national economic accounts.

(c) Analysis of Soviet Materials and End-Items

There is currently underway a program to analyze in detail certain Soviet materials and end-items. In one instance intelligence

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This gives intelligence a knowledge of the composition and quality of the items analyzed. It is believed that this program should be more aggressively conducted with the aim of acquiring samples of all principal types of Soviet Orbit production related to war potential. The potential contribution of intensive analysis of such simple products as [REDACTED]

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(d) Economic Statistics File

A program is underway to systematically census and file all useful statistics relating to the Soviet Bloc. From these voluminous data the most significant data are selected for publication in a statistical handbook. A preliminary edition of this handbook containing data -- principally production data -- on Soviet-economic activity has been prepared. This handbook is being expanded and within the next year will contain concise descriptive analytical and statistical material on the

entire Bloc economy.

(e) Coordination of Economic Research -- The Economic Intelligence Committee (EIC)

The EIC in its first year of operation -- July 1951 to June 1952 -- completed one [redacted] study at the direction of the IAC, two 25X1X7 major research contributions to the Office of National Estimates and numerous other papers of value to the intelligence community. The lack of analytic personnel with general competence in economics was one of the principal causes for delay in the preparation of these studies and this seriously limited the number of projects that could be undertaken. The planned increase in the number of professional personnel assigned to the EIC Secretariat will begin to expand the production capability of the EIC by late 1952.

In connection with this problem of priority the EIC has initiated surveys within its subcommittees to determine the most critical research problems and to decide which problems require improvement in collection and collation. In addition to these surveys the subcommittees concerned with various aspects of research -- electronics, petroleum, etc. -- are engaged in a process of cross-fertilization and are attempting to informally rationalize the various Agency programs for basic research in each field. 25X1X7



2. Communist China

There are critical deficiencies in the economic research programs relating to Communist China. Altogether there are probably only one or two

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professional analysts in the US Government engaged in research on Communist China on a general area or special-economic-problem basis; and the number of professional analysts who work on various segments of the economy (e.g. transportation, agriculture, etc.) is not large. However, there is relatively little current economic information available from the field and as a result the economic intelligence community is unable to answer adequately such critical national security questions as, "What is the current economic situation in Communist China; What is the degree of economic stability; What is the extent of Soviet-Communist Chinese economic relations", etc. While it is not suggested that the intelligence requirements for research on the Chinese economy demand anything like the effort devoted to research on the USSR, more research is needed on general analysis, trade, transportation, petroleum, agriculture, and munitions. Appropriate corrective steps are being taken to improve this situation, although there will probably be a time lag of three to nine months before these measures become effective to any significant extent.

3. Non-Bloc Countries (Contributions on these sections were received informally from DIA)

(a) General

In the non-bloc countries the degree of adequacy of foreign economic intelligence relating to various economic sectors varies widely. Foreign agricultural activity, for example, has been reported upon in great volume for many years by governments, by international organizations and by trade associations; to a lesser degree minerals, including petroleum, and transport industries have also been reported upon and analysed in detail. In contrast, information on manufacturing industries is inferior. Generally speaking the commodities which can be classified in more or less homogeneous categories for statistical purposes are better reported upon and

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analysed than products like chemicals, machinery, electronic devices, etc. These latter commodities about which it is conceptually most difficult to generalize are just the ones that are usually reported in large but almost meaningless enterprise.

Intelligence on international trade and finance varies in quality depending somewhat on the country but largely on the subject. Trade data is relatively good although there are important problems. For example, recorded trade movements frequently do not accurately reflect the ultimate destination or origin of the goods and there are great differences in the classification systems. Reporting on non-trade items is generally poor. In recent years there has been a marked improvement in the information on national accounts, but, except for a few countries, data on which the national accounts are based are quite unreliable. Labor and population reporting also is fairly unsatisfactory with greatest inadequacies in specific geographic areas, but some subjects, e.g. migration, are poorly reported everywhere.

Intelligence intelligence materials are not as well utilized as they should be because they are frequently hard to locate; are distributed too slowly; and indexing and cataloguing systems are not sufficiently comprehensive.

Variations in quality of intelligence products may be blamed chiefly on the fact that there are too few analysts whose capacities are too widely extended.

**(b) Latin America**

There are no unusual difficulties in securing economic information from and about Latin America. The only exception is Argentina, where

the government has severely curtailed publication and dissemination of statistical data. Our weaknesses in the Latin American area stems from the circumstance that Latin American statistical services are at times faulty and are not as complete as they are in the United States or in Europe. Moreover, economic reporting has not been attuned to the requirements of intelligence research. This problem is now being remedied.

We have on the whole been able to meet intelligence research requirements, although at times it has been necessary to operate with somewhat less than up-to-date information. Utilization of Latin American statistical data is at times hampered by a shortage of trained analysts.

Perhaps the most notable gap in our intelligence potential is in the area of capabilities in terms of desirable and attainable objectives of economic development in Latin America. We do not know enough about the orientation of "economic thinking" of those in Latin America who influence and direct economic policies. This is a particularly important aspect of the process of estimating probable developments.

We are reasonably well equipped to deal with economic trends and changes in Latin America as a whole, although in some respects and for some regions our information is not very much more than an educated guess (e.g. national income, rate of accumulation of capital, etc.). Even these gaps, however, are being gradually filled out as a result of expansion of improvement in the national and international statistical services.

(c) Four Part, South Asia and Africa

There are gross deficiencies in our economic knowledge of almost all countries in this area partly because reporting has been incomplete and even more because the basic information simply does not exist.

Intelligence has generally been able to meet requirements for some specific or particular studies. For example, over 100 briefing papers were turned out in support of the TCA program in South Asia when that program was getting underway.

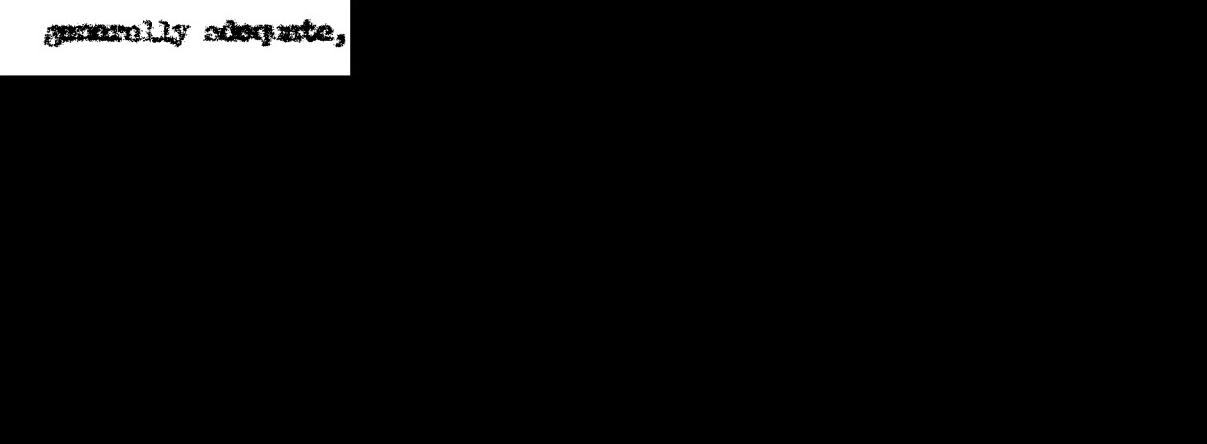
Intelligence has been much less successful in preparing broader studies and estimates. Here the problem is not so much a lack of material as it is the acute lack of trained personnel capable of sophisticated economic analysis.

(d) Western Europe

In other volume the flow from the field for all of the Western European countries is weighty and impressive. Subject coverage is generally adequate,

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There is, however, a problem of disproportionate emphasis stemming from the fact that the requirements of more specialized agencies like Commerce, Treasury, and Agriculture for very specific and detailed subject reports have diverted the time and energies of limited Embassy reporting staffs in all of the Western European posts from more general over-all reports highlighting economic interrelationships.

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An allied problem is that of the analytical calibre of the reporting from the field. Indications on this score relate to the fact that too much time is spent on detailed descriptive reports, and hence that the staff has not been conditioned to the evaluative, analytical approach to economic developments in their areas. To an increasing extent, however, this gap is being filled by the reporting of NM missions; their work, in turn is having a salutary (competitive) effect on the quality of embassy reporting.

The intelligence staff in Washington is altogether unequal to the task of fully utilizing the flow of material from the field. The primary deficiency is manpower shortage; there are simply not enough people in DE, for example, to meet the double burden of NM and current intelligence requirements.

#### B. Adequacy of Economic Intelligence to Current Activities and Programs Relating to the National Security

By and large one group of analysts within each department or agency is usually charged with providing economic research contributions to the various programs and major intelligence papers requiring economic intelligence support. These programs and papers include National Estimates, the Economic Warfare Program, Economic Intelligence Committee Studies, and Military Studies including Target Research. In addition, these same analysts provide intelligence to meet the operating needs of their particular departments or agencies. As noted in section A above this has put a strain not only on the research specialist but particularly on the limited number of top personnel who have general analytic competence and on whom the main burden falls. This has been a key factor in limiting the volume of intelligence output.

1. National Estimates

While it is possible to prepare economic intelligence contributions to National Estimates which are adequate for most broad generalizations and conclusions, it often is not possible to define clearly the degree of reliability of these studies or to provide the amount of detail that is required to make an estimate more precise and meaningful. This is evident from the intelligence deficiencies cited in section A above. As an example, while there is some reliable intelligence on the Soviet electronics industry it is not sufficient to provide a thorough understanding of the industry as it relates to Soviet air defense capabilities. Intelligence is better able to answer this kind of question now than it was a year ago, however, and it is expected that certain resources and developments now underway -- a few of which were noted in section A -- will result in considerable improvement in our research base within the next year. Nevertheless there must continue to be a careful designation of priorities on prepared projects in order to insure that the limited research potential is focused on projects of major importance to United States security.

2. Economic Warfare

Intelligence in support of NIC 104/2 and certain special programs such as the Detter Act will require increased economic intelligence support. The resources devoted to this effort, however, must bear some reasonable relation to other high priority tasks on which our resources are focused. Due regard must be given to the question of priorities and the inherent difficulty of securing information from within the Soviet orbit. In the light of this and in view of the limitations of intelligence noted in section A, much of the needed intelligence will often not be available in the quantity and depth of detail desired. It is anticipated, however, that the newly established coordinating

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committee will insure that the available intelligence is brought more fully  
and immediately to bear on questions arising under this program.

3. Soviet Bloc Capability Studies

Among the highest priority tasks of the economic intelligence community  
is the continuing study of Soviet Bloc economic capabilities for war. This  
study currently employs, for the first time, a modified form of input-output  
analysis and in addition, uses certain index number techniques. Though it is  
not expected that the first effort will be entirely adequate or reliable it  
is expected that it will lead to more accurate and meaningful estimates. Certain  
major intelligence deficiencies have already been identified in the process  
of preparing this study and knowledge of these will be of assistance in directing  
future research programs. The basic data derived from the study will, of  
course, be useful for many other intelligence purposes including support of  
economic warfare measures.

4. Recent Research

The intelligence deficiencies described earlier in section A are  
particularly applicable to analyses of vulnerability for air target purposes.

5. Vulnerability Studies

In addition to the assessment of Soviet Bloc vulnerability to air  
attack many other vulnerability studies are undertaken from time to time.  
These include analyses of the vulnerability of the Soviet Bloc to economic  
warfare, its vulnerability to biological warfare, and so on. As on other  
studies, it can be stated that economic intelligence permits reasonably  
accurate general conclusions but often is not adequate to permit a comprehensive  
and detailed analysis of the problem. As the research base becomes broader and  
deeper these questions can be answered more completely. In the interim one  
solution is to allow time for an intensive research effort. A recent intelligence  
research paper of considerable depth, on the vulnerability of Soviet crops to  
biological warfare, proved the value of allowing time for research preparation.

C. Studies of Intentions

Economic intelligence contributes occasionally to the Watch Committee Reports which are designed to reveal future courses of action by the Soviet Bloc. Contributions on this subject are spotty and by their very nature inconclusive, though in context with other intelligence they are useful. For the most part, this kind of report calls for the sort of intelligence details that are generally scarce. In addition to current spot contributions to the Watch Committee Reports, occasionally a research paper is prepared on such topics as the general subject of conversion to armament production or the level of military expenditures in the Soviet budget, though the latter is never very meaningful.

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